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Top-Ranked Pro Snaps Up Airline, Biotech And Tech Stocks After Timely Sale of Oil Holdings

Not many investment pros managed to dump their oil stocks before the price of crude started plummeting last year, but prescient investors who did obviously escaped heavy losses. The big question: Where did they invest the proceeds for greater future gains?

One top-ranked money manager, Graham Tanaka, president and senior analyst and portfolio manager at TANAKA Growth Fund (TGFRX), was one savvy investor who managed to slip out of his core oil holdings in October that not only saved him from losing a lot of money but prompted him to buy into new sectors he thought were promising but also enabled him to add to some of his holdings he believed would continue to produce mammoth gains.

Tanaka bought into airlines and added to his core holdings in technology and biotech stocks. The TANAKA Growth Fund is no slouch in stock investing. It was ranked by Lipper yesterday (Feb. 12, 2015) as No. 1 among growth funds year-to-date, with a gain of 6.88% since Dec. 31, 2014, through Feb. 12, 2015, vs. the S&P 500's 1.69% gain, and the 2.8% average gain of the Lipper 569-stock Multi-Cap Growth Fund.

The solid performance by TANAKA Growth Fund isn't a surprise as the fund also ranked No. 1 in the 5-month period through May 31, 2014, with a gain of 9.1%, and also ranked as No. 1 for one-year performance on Sept. 30, 2012, through Sept. 30, 2013, when it advanced 45.6%.

Based on its own research work, Tanaka decided to dump the fund's oil holdings, mainly Anadarko Petroleum (APC) in October at \$86.65 a share which, by December had dropped to a low of \$71. The TANAKA Fund had bought the stock earlier in 2014 at \$75 a share.

TANAKA also sold its holdings in Carrizo Oil & Gas (CRZO) in October at \$44.52 a share, which later dropped to a low of \$31.70 by December. The fund purchased the Carrizo shares in 2013 at \$24 a share. Both stocks have recovered some of their losses by early February as some investors have assumed that crude oil prices have bottomed.

Right after bailing out of the oils, TANAKA Fund bought shares in JetBlue Airways (JBLU) at \$14.66 a share, (which has since risen to \$16.74), and Alaska Air Group (ALK) at \$54.68 (which has since jumped to \$62). The fund also increased its exposure in biotechnology, buying into Celgene (CELG) and Amgen (AMGN), and added to its holdings in Gilead Sciences (GILD).

Graham Tanaka points out that while selling the energy stocks and buying airline shares helped boost the fund's fourth quarter results, its huge returns were largely due to its diverse holdings in technology and healthcare. Among the big contributors: Apple (AAPL), which gained over 13.3% from Dec. 31, 2014, to Feb. 12, 2015; Valeant, up 14.8%; Synaptics (SYNA), up 14.8%; Helen of Troy (HELE), up 19.2%; Gilead, up 6.4%, and Lions Gate Entertainment (LGF), up 10.7%.

For 2015, Tanaka is betting on three stocks he believes will be among the best performers: Apple, Synaptics, and Gilead. Tanaka figures that Apple, now trading at \$126 a share, should advance to \$157 in 12 months, and Synaptics, now at \$79, will hit \$100. And Gilead, now at \$101, should climb to \$165 a share, figures Tanaka.

Tanaka notes that these three stocks are all selling at a significant discount to the market's multiple of about 16 on next year's earnings estimate. He predicts that over the next five years, Apple, Synaptics and Gilead will see their earnings rise well above the market's expected growth rate of about 8%.

"All three companies have very high profit margins, strong free cash flow, and clean balance sheets, with cash well in excess of debt," says Tanaka.

TANAKA GROWTH FUND's largest holding is Apple, which "demonstrated in the last few quarters that its premium priced products have great appeal in the fast growing Asian market, having the potential to sell more than half of smartphones sold in China," notes Tanaka. He expects Apple can achieve earnings growth of 15% annually over the long-term powered by new products, acquisitions, and stock buybacks.

Synaptics, a company transitioning from a one-product company supplying touch controller components for PC touch pads into a supplier of integrated touch controller and display modules, as well as fingerprint sensors for smartphones, tablets and other devices. The company has more than doubled its "total available market" through two timely acquisitions of leaders in display modules and fingerprint sensors, notes Tanaka. And it is just beginning to get traction in these new markets from new and existing customers, he adds.

The stock remains undervalued, he says, as it is only selling at 11.8 times estimated 2016 earnings of \$6.78 a share. Tanaka's 12-month price target of \$108 a share is based on a market multiple given its prospects for long-term growth of 15% to 20% a year.

And Gilead, a leading biopharmaceutical company with a demonstrated track record for developing important compounds, has developed a family of superior products that dominate the HIV market and will be doing the same for Hepatitis C. Its R&D pipeline is addressing new therapeutic areas, including various cancers and non-alcoholic steatohepatitis or fatty liver disease, Hepatitis B, and other liver ailments. Tanaka's 12-month price target of \$165 a share reflects a market conservative multiple of 16 times 2016 earnings forecast of \$10.40 a share.

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